

Rating Action: Moody's assigns Aaa rating and negative outlook to the City of Rockville's (MD) \$22.4 million General Obligation Bonds, Series 2013

Global Credit Research - 21 Feb 2013

Aaa rating affects \$ 153 million in parity bonds outstanding, including the current issue

New York, February 21, 2013 -- Moody's Rating

Issue: General Obligation Bonds, Series 2013A; Rating: Aaa; Sale Amount: \$16,105,000; Expected Sale Date: 3-5-2013; Rating Description: General Obligation

Issue: General Obligation Bonds, Series 2013B; Rating: Aaa; Sale Amount: \$6,330,000; Expected Sale Date: 3-5-2013; Rating Description: General Obligation

OPINION

Moody's Investors Service has assigned a Aaa rating and a negative outlook to the City of Rockville's (MD) \$22.4 million General Obligation Bonds, Series 2013. Concurrently, Moody's has affirmed the Aaa rating assigned to the city's \$151.6 million of previously-issued parity debt outstanding. The outlook remains negative.

SUMMARY RATING RATIONALE

The bonds are secured by the city's unlimited ad valorem tax pledge. The assignment of Moody's highest quality rating reflects the city's sizable tax base, above average wealth levels, and the continued growth and diversification of the city's job base, further securing its role as a regional employment center with a daytime population that is 20% greater than the residential base. The rating further considers the city's strong financial position, characterized by conservative fiscal management, ample reserve levels, long-term operating stability, and a low direct debt burden. Proceeds of the Series 2013A bonds will finance various upgrades to the city's water and sewer system. The 2013B bonds will refund the city's Series 2003A bonds for an expected net present value savings of 9.4% of refunded principal with no extension of maturity.

The negative outlook reflects the city's indirect linkages to the weakened credit profile of the U.S. government.

STRENGTHS

- Sizable, diverse tax base in metro-D.C. area
- Historically stable financial position bolstered by formal fiscal policies
- Manageable debt burden

CHALLENGES

- Employment closely linked to federal government

OUTLOOK

Moody's negative outlook on Rockville's Aaa rating is due to its indirect linkages to the weakened credit profile of the U.S. government. The negative outlook relates to Moody's August 2, 2011 decision to confirm the Aaa government bond rating of the United States and assign a negative outlook, and to our most recent February 5, 2013 assessment of the city's exposure to indirect linkages to the federal government. Moody's has determined that issuers with indirect linkages, such as Rockville, have some combination of economies that are highly dependent on federal employment and spending, a significant healthcare presence in their economies, have direct healthcare operations, and/or high levels of short-term and puttable debt. After calculating these quantitative metrics, Moody's determined that Rockville had above-average exposure to federal employment and spending. Please see the special comment from February 5, 2013 entitled "Update: Ratings of Aaa Municipal Credits Indirectly Linked to the US Government" for more information.

WHAT COULD MOVE THE RATING DOWN

- Continued use of fund balance that draw reserves below current levels
- Significant weakening of enterprise fund operations that require increased support from the General Fund
- Declines in tax base or weakening of socio-economic profile
- Downgrade of the U.S. government's rating to Aa1

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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